

FSC-189-A	12/18/95	TO: ROM
SUBJECT: Forsyth Private Label Program Restructure		
DISTRIBUTION:		
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We are pleased to announce effective January 1, 1996, the following changes to our Forsyth Private Label program.

1. Off-Invoice Change

Increase of maximum allowable Off-Invoice to \$2.00 per carton with corresponding reduction of Alliance Accrual to \$.30 per carton. You should strive to accomplish this in all Private Label accounts.

Rationale:

- Enables partners to be more competitive day to day at retail.
- Reduces administrative burden on field and internal departments by reducing paperwork required for Alliance Accrual requests. Presently, 98% of Accrual dollars are spent for Direct Buydowns, coupons or VPR's.
- Since pricing in fair trade states is based on invoice cost plus a set percentage markup, lower net invoice effectively reduces selling price by more than the manufacturer Off-Invoice amount.
- Still enables account to accrue at the rate of \$.30 per carton, monies to run promotions in areas of intense competitive activity.
- In accounts where the \$2.00 Off-Invoice is adequate to maintain/grow our Private Label volume and share, you now have the ability to use the Special Accrual Request Form and authorize periodic payments to your account to bolster it's profit margins. Use care if doing this to ensure your account always has some reserve to protect its Private Label business.

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Special Note:

A Retail indirect Private Label chain must realize the effect an Off-Invoice change has on its cigarette supplier. Due to a supplier keeping an average of 1 1/2 weeks of product on hand, the retailer must coordinate the change date with them. This may be done in two ways:

- (A) Tell supplier the effective ship date of newly revised Off-Invoice product as communicated by Customer Services. Upon first receipt of this product, the supplier does a physical inventory of the on-hand product invoiced at the old price. Based on average cartons sold to the chain per week, the supplier will then tell the account when they can expect to see the new invoice price reflected in the chain's stores.
- (B) Communicate with the supplier the effective ship date of the revised Off-Invoice product, have supplier do a physical count of old off-invoiced product upon receipt of new, and retail chain writes supplier a check for difference per carton. This method would start the new pricing at retail immediately. If the retail chain has adequate money in it's Alliance Accrual Fund, you could request a check to the retailer to cover the difference. The check must be written in the name of and forwarded to the retailer.

(UNTRACT)
Tom
SULLIVAN
RE:
McLANE
INVOICE
CHANGE

2. Monthly Rebate Changes

For those few accounts that are still receiving a monthly rebate versus taking \$1.50 off invoice; i.e., they have \$1.20 off-invoice and receive \$.30 per carton monthly rebate in check form, strive to get them to go to \$2.00 Off-Invoice thereby dropping the monthly rebate and reducing Alliance Accrual to \$.30. In those accounts where this cannot be accomplished, call your Area Manager of Operations for approval as this will be an exception.

Rationale:

- If extra Off-Invoice does not need to be passed along at retail, this effectively increases the account's margins on Private Label.
- Account receives benefit of having the extra monies immediately, instead of having to wait until month end. Increases cash flow.

3. Information Needed By Customer Services

You should use the attached Forsyth Pricing Restructure Agreement to implement the new Off-Invoice Programs with your accounts. The account with whom we have the Private Label Agreement should authorize the change; i.e., Retail Chain if Retail Agreement. This signed Agreement should be faxed to Customer Services immediately allowing two weeks from receipt for Off-Invoice change to occur. Your Customer Services Representative will confirm the change date by returning to you in a fax an executed copy of the Agreement.

4. Share of Category Program

- Wholesale Partners Only

To encourage our wholesalers who aligned with Forsyth to drive one of our Private Label Brands in 1995, we committed to them a minimum Share of Category payment of \$.40 per carton for the entire year, regardless of their actual share. We did this to incent them to increase our Share of Savings business through their retail customers. It was explained to them that this would give them an entire year to get our Share of Savings up to 40%+ share, so they could realize a high Share of Category pay-out for 1996.

As 1995 draws to a close, you should reiterate to your Forsyth Private Label Wholesalers that Share of Category payments for 1996 will be made based on their actual Share of Category at \$.01 per share (maximum \$.50 on 50% share), obtained each calendar six month period. This will give you the opportunity to congratulate them on a job well done and remind them of our support in 1995.

- Retail Partners Only

We have revised our Share of Category payment for our retail Private Label partners for 1996, to encourage them to maintain/grow our share of their savings business by adding an intermediate earnings grid as follows:

<u>Present</u>	<u>Payout Per Ctn.</u>	<u>New for 1996</u>	<u>Payout Per Carton</u>
35%-74%	\$.25	35%-49%	\$.25
---	---	50%-74%	\$.35
75% +	\$.50	75% +	\$.50

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Rationale:

- Incent retail chains where we have a 40-49% Share of Savings to grow RJR to 50% + in order to earn \$.10 additional per carton on their Private Label S.O.C.
- Encourage retail chains where we have a 50% - 74% Share of Savings to at least maintain our Share to get additional \$.10 per carton on their Private Label S.O.C.
- Continue to reward retail chains where we have a 75%+ S.O.C. by continuing \$.50 per carton payment.

5. DORAL/Private Label Partnership (RETAIL ONLY)

As a further illustration of our commitment to Retail Private Label Partners, we have "bundled" DORAL with our Private Label Share of Category program. For qualifying partners with a minimum Level II Merchandising program, we will also make a semi-annual Share of Category payment on each carton of DORAL as follows:

<u>Share of Savings</u>	<u>Payout Per Carton of DORAL</u>
35-49%	\$.00
50-74%	\$.35
75% +	\$.50

Rationale:

- Strengthens merchandising partnerships - level II minimum.
- Incent retail partners to grow DORAL.
- Encourages retail partners to limit competitive savings promotions.
- Reduces opposition to DORAL buydowns.
- Additional reason to support Forsyth's Private Label Program.

Our financial commitment to our Forsyth Retail Private Label Partners has increased substantially for 1996. We have justified this increase by believing we will grow our Savings volume accordingly. In presenting these new programs, you must emphasize to our retail partners the need for their support in accomplishing this so the program can continue into the future.

Program Contact: Your Area Manger of Operations.
Jim Farmer, extension #0470

R. J. REYNOLDS TOBACCO COMPANY

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